

ATTACHMENT

Paraphrase of Hong Kong Cable #3584, dated 31 May, to State

25X6A

[REDACTED] called on the U. S. Consul General on 24 May and expressed the following views regarding the Chinese Communist situation:

- a. The Peiping regime is not efficient. It lacks authority at the working level and technical knowledge at the top level.
- b. This inefficiency is illustrated by Peiping's failure to obtain urgently needed paper and pulp from Sweden because of excessive delays in reaching a decision.
- c. The effective functioning of the regime is severely handicapped by its barter system of foreign trade, in accordance with which the Communists demand the delivery of Western goods in Chinese ports before they license Chinese exports to the West; rigid adherence to this policy results in impossible financing problems and unacceptable risks for Western traders.

25X6A

- d. [REDACTED] believes that the military and industrial potential of Communist China has been seriously over-rated by the US and other Western nations. He believes China's need for strategic commodities of all kinds is desperate and that the country is gravely impoverished, if not bankrupt.

- e. The Communist Chinese desperately need shipping and have several times sought to charter [REDACTED]

25X6A

25X6A

- [REDACTED] feels shipping to be the Achilles heel of the regime and thinks a "very effective squeeze" could be placed on the Chinese if the [REDACTED] that no UN members would permit their ships to call at Chinese ports.

- f. The whole prestige of the Peiping regime apparently is staked on the acquisition of Formosa.
- g. Heavy casualties in Korea probably will not compel the Chinese Communists to abandon their efforts there, but loss of arms and particularly artillery is having an effect. These losses can only be made up by the Soviets, who will affix conditions on any supplies that they furnish.

CONFIDENTIAL

- h. In final interview with [REDACTED] 25X6A
asked if he might convey any word to his govern-
ment regarding a possible Korean truce. [REDACTED] 25X1X
did not reply.
- 25X6A i. [REDACTED] considers Mao firmly in control and
in fair health although he suffers from high blood
pressure. Chu Teh seems to be the heir apparent.

- 2 -

CONFIDENTIAL